

CITY OF PROMISE CITY

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD
APRIL 1, 2015 THROUGH MARCH 31, 2016**

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City of Promise City

Officials

(Before January 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Brenda DeVore	Mayor	Jan 2016
Tim Tometich	Council Member	Jan 2016
Stan McCarty	Council Member	Jan 2016
Leonard Jondle	Council Member	Jan 2018
Ella Recoy	Council Member	Jan 2018
Vacant *	Council Member	
Debra Eccleston	City Clerk	Indefinite

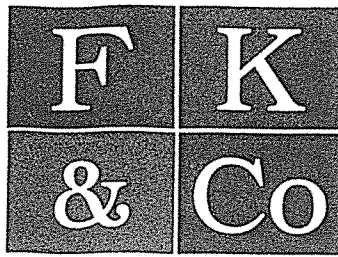
(After January 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Brenda DeVore	Mayor	Jan 2018
Tim Tometich	Council Member	Jan 2020
Stan McCarty	Council Member	Jan 2020
Leonard Jondle	Council Member	Jan 2018
Ella Recoy	Council Member	Jan 2018
Paul McClain **	Council Member	Jan 2018
Debra Eccleston	City Clerk	Indefinite

* -Positon vacant.

** -Appointed in February 2016.

City of Promise City



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor
and Members of City Council:

We have performed the procedures enumerated below which were established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide oversight of certain Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Promise City for the period April 1, 2015 through March 31, 2016. The City of Promise City's management, which agreed to the performance of the procedures performed, is responsible for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.

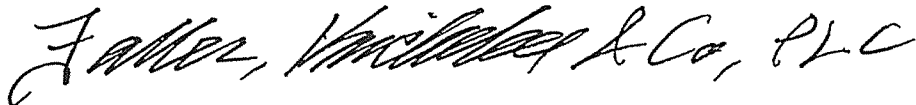
5. We reviewed City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2015 Annual Financial Report (AFR) to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
9. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
11. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
12. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
13. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

These agreed upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Had we performed additional procedures, or had we performed an audit of the City of Promise City, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Promise City and other parties to whom the City of Promise City may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Promise City during the course of our agreed-upon procedures. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in cursive script that reads "Faller, Kincheloe & Co, PLC". The signature is written in dark ink and is positioned above the printed name of the company.

Faller, Kincheloe & Co, PLC

Des Moines, Iowa
August 8, 2016

Detailed Recommendations

CITY OF PROMISE CITY

DETAILED RECOMMENDATIONS

For the period April 1, 2015 through March 31, 2016

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

1. Cash – handling, reconciling and recording.
2. Investing – recordkeeping, investing, custody or investments and reconciling earnings.
3. Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
4. Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
5. Payroll – recordkeeping, preparation and distribution.
6. Utilities – billing, collecting, depositing and posting.
7. Financial reporting – preparing and reconciling.
8. Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

- (B) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account listing was not prepared monthly.

Recommendation – A listing of delinquent accounts should be prepared monthly. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The reviews should be documented by signing or initialing and dating the reconciliations.

- (C) Receipts – Initial listings of receipts are not prepared. In addition, some receipts were kept on hand for over a month prior to deposit to the bank account.

Recommendation - An initial listing of collections should be prepared. These collections should be compared to the bank deposit and the accounting records by an independent person and the review should be documented. In addition, receipts should be deposited to the bank on a timely basis, preferably daily.

CITY OF PROMISE CITY

DETAILED RECOMMENDATIONS

For the period April 1, 2015 through March 31, 2016

- (D) Deposits and Investments – The City has not adopted an official investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, a resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa. The City Council, by resolution, should approve amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

- (E) City Financial Management Information – The City does not maintain its accounting system in a format to facilitate fund accounting required for governmental accounting and financial reporting. Fund accounting is required as a means for the City to demonstrate compliance with legal requirements pertaining to the various funding sources of the City, including property tax levied for specific purposes, road use tax and bond, note and loan proceeds.

Recommendation – The City should review the current financial accounting system and establish procedures to require and ensure records are maintained to facilitate fund accounting required for governmental accounting and financial reporting.

- (F) Chart of Accounts – The City has not fully implemented the recommended Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee.

Recommendation – To provide better financial information and control, the recommended COA, or its equivalent, should be followed.

- (G) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City's Annual Financial Report contain a "summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures..." The City's Annual Financial Report reported receipts, disbursements and fund balances which do not agree to the City's records.

Recommendation – The City should ensure future Annual Financial Reports agree to the City's records.

CITY OF PROMISE CITY

DETAILED RECOMMENDATIONS

For the period April 1, 2015 through March 31, 2016

- (H) Monthly Clerk's Report – The monthly City Clerk's Report provided to the City Council for review does not include a comparison of total disbursements for all funds to the certified budget by function. In addition, for the months tested, the ending balances on the Clerk's report and the bank reconciliation balances were different by \$100.00 and \$284.76.

Recommendation – To provide better control over budgeted disbursements, the City Clerk's monthly financial reports to the City Council should include a comparison of total disbursements for all funds to the certified budget by function. In addition, the City should implement procedures to ensure the ending balances on the Clerk's report reconcile to the ending balances as recorded on the bank reconciliations, and variances, if any, should be reviewed and resolved timely.

- (I) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the public safety, culture and recreation and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

No evidence could be located that the fiscal year 2016 budget or the fiscal year 2016 budget amendment was passed by resolution as required by Chapter 384.16 of the Code of Iowa.

No evidence could be located that a public hearing was held in relation to the fiscal year 2016 budget or on the fiscal year 2016 budget amendment. Chapter 384.16 of the Code of Iowa requires the City to hold a public hearing prior to approving the budget and the amended budget.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. In addition, the City's budget and amended budget should be passed by resolution as required by Chapter 384.16 of the Code of Iowa. Also, a public hearing should be held prior to budget and the amended budget approval, as required by Chapter 384.16 of the Code of Iowa.

- (J) City Council Minutes – Chapter 372.13(6) of the Code of Iowa requires posting within fifteen days of each meeting of all City Council proceedings, including total disbursements from each fund, a summary of all receipts, and a list of approved claims. We noted that these requirements were not met by the City for all of the meetings tested.

CITY OF PROMISE CITY

DETAILED RECOMMENDATIONS

For the period April 1, 2015 through March 31, 2016

Recommendation – The City should comply with the Code of Iowa and post within fifteen days of each meeting all City Council proceedings, total disbursements from each fund, a summary of all receipts, and the list of approved claims.

- (K) Public Notices – The City has not permanently designated by ordinance three public places in the City for posting of public notices, as required by Chapter 362.3 and 372.13(6) of the Code of Iowa.

Recommendation – The City should implement procedures to ensure that three public places are set by ordinance, as required by Chapter 362.3 and 372.13(6) of the Code of Iowa.

- (L) Payroll – The City Clerk's salary was not documented in the City Council minutes. Social Security and Medicare payroll taxes are not paid for the Mayor and City Council members. The City filed incorrect Forms 941's, W2's and W3's with the federal government. Specifically, the City did not reduce the federal and state wage amounts by the amount of the employee's share of retirement deducted from the employee's check.

Recommendation – Salaries of employees should be documented in the City Council minutes. Social Security and Medicare tax should be paid for the Mayor and City Council members. In the future, the City should ensure accurate 941's, W2's and W3's are filed with the federal government, and that the federal and state wage amounts are accurately reported.

- (M) Bank Loan Agreement – In fiscal year 2015, the City entered into a loan with a cooperative for \$20,000 to pay for street related work. However, the City did not comply with the provisions of Chapters 384.24A and 384.25 of the Code of Iowa which require certain authorization procedures to be followed, including publication of a notice of intended action and the time and place of the meeting.

Recommendation – The City should comply with the Code of Iowa requirements before entering into future loan agreements.

CITY OF PROMISE CITY

DETAILED RECOMMENDATIONS

For the period April 1, 2015 through March 31, 2016

- (N) Sewer Revenue Bond – The City has a sewer revenue bond payable to the United States Department of Agriculture. However, the City could not locate the debt agreement in relation to this sewer revenue bond. As a result, the City is unable to determine compliance with the sewer revenue bond provisions.

Recommendation – The City should work with legal counsel to resolve this issue.